

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES  
OF NETTLECREEK TREATMENT  
PLANT, INC.

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CASE NO. 8126

O R D E R

On January 5, 1981, Nettlecreek Treatment Plant, Inc., ("Applicant") filed its petition for authority to adjust the rate it charges for sewage service to its customers. The proposed adjustment would raise the present rate of \$15.80 per month to \$36.31 per month.

In order to determine the reasonableness of the proposed rate, a public hearing was set for May 7, 1981, at 2:00 p.m. in the Commission's offices in Frankfort, Kentucky, by the Commission's Order dated March 25, 1981. The hearing was held as scheduled with all parties of interest having first been duly notified and the Attorney General's Division of Consumer Intervention being the only intervenor of record. The entire matter is now considered to be submitted for final determination by this Commission.

TEST PERIOD

The Applicant proposed and the Commission has accepted the twelve-month period ending September 30, 1980, for the purpose of determining the reasonableness of the proposed rate. Pro forma adjustments have been included where found to be just and reasonable.

### VALUATION METHOD

The Commission has found that the Applicant's investment records are insufficient in detail to provide the necessary information to determine the net investment or capitalization of the Applicant for rate-making purposes. Therefore, the Commission is of the opinion that the operating ratio method should be utilized in this instance.

The formula used in computing operating ratio is as follows:

$$\text{Operating Ratio} = \frac{\text{Operating Expenses} + \text{Depreciation} + \text{Taxes}}{\text{Gross Revenues}}$$

### REVENUES AND EXPENSES

Applicant proposed several pro forma adjustments to its income statement,<sup>(1)</sup> and the Commission is of the opinion that these adjustments are necessary and present a fair and accurate description of the Applicant's current operations with the following exceptions:

1. The Applicant's witness testified in the hearing that \$5,452 of its cost for repairs and maintenance was of an extraordinary, nonrecurring nature, and the Commission has determined that this portion of the expense should be amortized over a ten-year period.<sup>(2)</sup>

2. The Commission has found the pro forma management fee of \$4,800 to be excessive and has reduced this fee to \$1,800, which is consistent with past Commission decisions concerning similar sized sewer utilities.

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(1) Audit report of Kaelin and Byrne, Exhibit VI.

(2) Testimony of David G. Presnell, Jr., at the May 7, 1981, hearing.

3. On July 25, 1979, in Case No. 7528, the Applicant requested a certificate of convenience and necessity to construct an additional 45,000 gallon treatment plant at a cost of approximately \$90,000. The Applicant indicated that it planned to obtain the financing for this facility from Citizen's Fidelity Bank ("Bank"). However, not at this time or any time since, has Applicant requested or been granted authority by the Commission to borrow said funds. The Commission is greatly concerned with the Applicant's failure to comply with the provisions of KRS 278.300 and Commission regulations requiring utilities to apply to the Commission for approval of securities, notes, bonds, stocks, or other evidences of indebtedness payable at periods of more than two years from the date thereof. While the Commission recognizes that the arrangement was made by the Applicant in what it considered an attempt to restore financial stability, it was in fact an imprudent borrowing which would have been averted if the Applicant had properly sought authorization of the Commission whereby the Commission would have had the opportunity to evaluate the new indebtedness proposed by the Applicant. The Commission believes this type of financial management, which apparently gave little regard to what impact the borrowing of these funds would have on the rates of existing and future customers, is simply irresponsible. Further, the Applicant's consumers cannot be expected to pay a rate which includes the cost of money for a facility which has not been actually used for the servicing of

those consumers. The Commission has therefore disallowed for rate-making purposes the interest expense of \$13,012 associated with the above-mentioned loan.

4. Since the Applicant will recoup its original construction cost of \$85,280 through the sale of lots in the Gainsborough Subdivision, the Commission has determined that the construction approved in Case No. 7528 is contributed property and has disallowed depreciation on the treatment plant related to this construction. The Commission has calculated the adjusted depreciation expense to be \$2,195.<sup>(3)</sup>

5. The pro forma insurance expense of \$712 has been adjusted by Applicant to reflect its current actual expense of \$580.

Therefore, the Commission finds that Applicant's adjusted operating revenue and expenses can be summarized as follows:

	<u>Actual</u>	<u>Pro Forma Adjustments</u>	<u>Adjusted</u>
Revenue	\$22,541	(\$10)	\$22,531
Expenses	\$52,222	(\$24,036)	\$28,186
Net Income/(Loss)	(\$29,681)	\$24,026	\$(5,655)

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(3) Calculation:  
\$55,864 (noncontributed plant) x 3.93% (cumulative depreciation rate) = \$2,195.46, rounded \$2,195.

### SUMMARY

The Commission, after consideration of all evidence of record and being advised, is of the opinion and finds that:

1. The rate set out in Appendix A, attached hereto and made a part hereof, is the fair, just and reasonable rate to be charged by Applicant for sewage services rendered to its customers and based on Applicant's projected number of customers, should produce revenue in the amount of \$33,254, or that revenue necessary to cover Applicant's adjusted operating expenses, including income taxes of \$1,077, and provide a reasonable surplus for equity growth based on an operating ratio of 88%.

2. The rate proposed by Applicant would produce revenues in excess of those found to be reasonable herein and therefore must be denied upon application of KRS 278.030.

### ORDERS IN THIS MATTER

The Commission, on the basis of the findings hereinbefore set out and the evidence of record in this matter, HEREBY ORDERS that the rate set out in Appendix A, attached hereto and made a part hereof, is the fair, just and reasonable rate to be charged by Nettlecreek Treatment Plant, Inc., for sewage services rendered to its customers on and after the date of this Order.

IT IS FURTHER ORDERED that the rate proposed by Nettlecreek Treatment Plant, Inc., is hereby denied.

IT IS FURTHER ORDERED that Nettlecreek Treatment Plant, Inc., file with this Commission within 30 days of this Order its revised tariff sheets setting out the rate approved herein and all rules and regulations governing the provision of sewage service.

Done at Frankfort, Kentucky, this the 5th day of June, 1981.

PUBLIC SERVICE COMMISSION

Marlin M. Voth  
Chairman

Katharine Randall  
Vice Chairman

Sam Glasgow  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC SERVICE  
COMMISSION IN CASE NO. 8126 DATED JUNE 5, 1981.

The following rates are prescribed for sewer services rendered to all customers served by Nettlecreek Treatment Plant. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

<u>Customer Category</u>	<u>Monthly Rate</u>
Single-Family Residential	19.52 per residence